


ACTUARIAL NOTE
REGULAR SESSION 2009

House Bill 825 HLS 09RS-1480 Engrossed/with House Committee Amendments	Preparation of this Note was directed by the Actuarial Services Division of this office.
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District Attorneys' Retirement System of Louisiana	Legislative Auditor
EG 5yr Ttl: See note	

Bill Header: Relative to the (DARS); allow a reemployed retiree to regain membership in the System by paying the actuarial cost associated with the restoration of membership rights.

Estimated Fiscal Impact:

EXPENDITURES:	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total
State General fund	See below	See below	See below	See below	See below	See below
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See below	See below	See below	See below	See below	See below
Annual Total	See below	See below	See below	See below	See below	See below

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total
State General fund	0	0	0	0	0	0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	See below	See below	See below	See below	See below	See below

Purpose:

Relative to the District Attorneys' Retirement System (DARS); to allow a reemployed retiree to regain membership by paying the actuarial cost to the System for any increase in accrued liability associated with such rescission of retirement and reemployment.

Existing Provisions:

Under §1631(F) of current law, if a retired member of DARS becomes an Assistant District Attorney or District Attorney (hereinafter referred to collectively as District Attorney or DA), then:

1. DARS will suspend the District Attorney's retirement benefit.
2. The District Attorney must re-join DARS and make contributions to the System.
3. The state or parish employing the District Attorney must also begin contributing to the System.
4. The District Attorney will accrue a supplemental benefit during the District Attorney's reemployment period.

DARS interprets the portion of §1631(F)(1) dealing with the calculation of the supplemental benefit to mean:

1. The original benefit is unaffected by additional service and compensation credits earned by the District Attorney after reemployment.
2. The supplemental benefit is calculated using only service and compensation credits earned by the District Attorney after reemployment.

Proposed Provisions:

Under House Bill 825,as amended and engrossed, a retired member of DARS who is elected to a position of District Attorney may elect to rescind his original retirement. If he makes this election, DARS would be required to calculate the District Attorney's benefit upon his subsequent (or second) retirement using all service and compensation credits (both before retirement and after reemployment). However, during the first 5 years of reemployment, annual compensation for benefit calculation purposes may not exceed the previous year's annual compensation by more than 10%.

House Bill 825, as amended and engrossed, provides that the reemployed District Attorney must pay to the System an amount that will offset the increase in accrued liability resulting from the District Attorney's decision to rescind his retirement and to be reemployed.

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Related Information:

HB 825, as amended and engrossed, provides that if he elects to rescind his retirement, the District Attorney must pay to DARS an amount equal to the “increase in the accrued liability of the System resulting from the rescission of his original benefit.” In theory, the accrued liability of the system has not changed on the day the District Attorney is reemployed. He hasn’t earned any additional service credits nor has he earned any additional compensation. At the moment in time that the District Attorney is reemployed, the actuarial liability is the same as the accrued liability was the moment before his reemployment. Therefore, in theory, the increase in accrued liability is \$0.

Nevertheless, the language of HB 825 leaves room for multiple interpretations for “increase in accrued liability”. The actuary for DARS has indicated that he would interpret the language to mean the value of the projected future increase in liability that would result from the District Attorney having a much larger annual income than he had before he originally retired and being reemployed at least through the end of his 6 year term of office. The actuarial analysis below has been prepared based on the methodology that the DARS actuary has indicated he would use.

Actuarial Impact:

A reliable measure of the additional cost incurred as a result of HB 825 can only be made once the District Attorney actually retires for the second time. An estimate of the cost at the time the DA is reemployed can be made, but such an estimate is unreliable. The estimate may be significantly larger than the actual cost or it may be significantly smaller. The variance between the actual cost, as measured when the DA retires for the second time, and the cost estimated at the time of reemployment, depends on decisions made by the DA after reemployment that cannot be predicted or modeled reliably.

Actuarial Analysis:

The following example illustrates the actuarial implications associated with House Bill 825 as amended and engrossed.

An Assistant District Attorney (ADA) retires from DARS at age 55 with 25 years of service. Other information pertaining to this individual is given below:

Age at Retirement	55
Service at Retirement	25
Salary	
1st Year before Retirement	\$ 84,000
2 nd Year before Retirement	\$ 80,000
3 rd Year before Retirement	\$ 76,000
Average Final Compensation	\$ 80,000
Service Multiplier	3.5%
Benefit Accrual Percentage	87.5%
Annual Life Annuity Benefit from DARS	\$ 70,000
100% Joint & Survivor Option Factor	80%
Annual Benefit Paid from DARS	\$ 56,000

The retired ADA is retired for two years and then is elected District Attorney (DA). His annual salary for the first year after his election is \$130,000. The DA expects to serve one 6 year term before re-retiring.

Benefit calculations and cost calculations associated with this example are summarized below:

	Current Law	Amended HB 825
Benefit at Subsequent Retirement Date	\$ 82,572	\$ 117,781
Benefit at Initial Retirement Date	\$ 56,000	\$ 56,000
Benefit Increase	\$ 26,572	\$ 61,781
Total Cost to DARS	N/A	\$ 216,736
Cost Paid by the DA	N/A	\$ 216,736
Net Cost to DARS	N/A	\$ 0

1. When he retires for the second time, the District Attorney’s retirement benefit under current law will be \$82,572. If House Bill 825 is enacted in its amended and engrossed form, the DA’s benefit upon his second retirement will be \$117,781. The DA will receive \$35,209 a year more under HB 825 than what he would have received under current law.
2. If the actuary for DARS assumes the DA will work for the full six years of his term of office and then re-retires without seeking election for a second term, the present value cost of HB 825, calculated at the time of the DA reemployment, is about \$217,000.
3. HB 825, as amended and engrossed, requires the DA to pay to DARS an amount that will offset the increase in the accrued liability resulting from his decision to rescind his retirement and to be reemployed.
4. Under HB 825, as amended and engrossed, the DA pays the full cost to the System and the cost to the System is \$0.

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This example was provided to illustrate the cost implications of HB 825 on the employee and DARS. The values developed in the example are intended to provide an “order of magnitude” cost. The values pertaining to this specific example are estimates and do not necessarily reflect the precise calculations that would be made by DARS and its actuary if confronted with a real life situation that is identical or similar to the example.

Fiscal Impact:

The lump sum amount paid by the reemployed District Attorney to DARS under House Bill 825 may vary significantly from the actual cost ultimately incurred by the DARS. The actual cost may be significantly larger or significantly smaller than the amount paid.

If 1,000 retired members of DARS are elected to District Attorney positions, the net cost to DARS in the aggregate would be \$0. Although individual costs may not be accurate, the System would collect sufficient dollars from the District Attorneys in the aggregate to pay for the increased cost. However, HB 825 will not affect 1,000 individuals, but rather will perhaps benefit only a few. Therefore, the “Law of Large Numbers” does not apply and the cost to DARS could be more or less than the cost that actually emerges.

Dual Referral Rules:

Estimated Fiscal Impact >= \$500,000? **NO**